EDP Industries Limited Annual Report 1972

Directors

Harry B. Dunbar
Vice-President Corporate Development,
Neonex International Ltd., Vancouver

James A. Pattison
Chairman and President,
Neonex International Ltd., Vancouver

Edward Pyrik
President,
EDP Industries Limited, Vancouver

William J. Sleeman
Group Vice-President,
Neonex International Ltd., Vancouver

Fred W. Vanstone
Vice-President Finance,
Neonex International Ltd., Vancouver

Officers

James A. Pattison
Chairman

Harry B. Dunbar
Vice-Chairman

Edward Pyrik
President

Marvin E. Smith
Vice-President
Eastern Region

Leonard R. Springall
Secretary

Transfer Agent

Yorkshire Trust Company
Vancouver

Auditors

Collins, Love, Eddis, Valiquette & Barrow
Vancouver

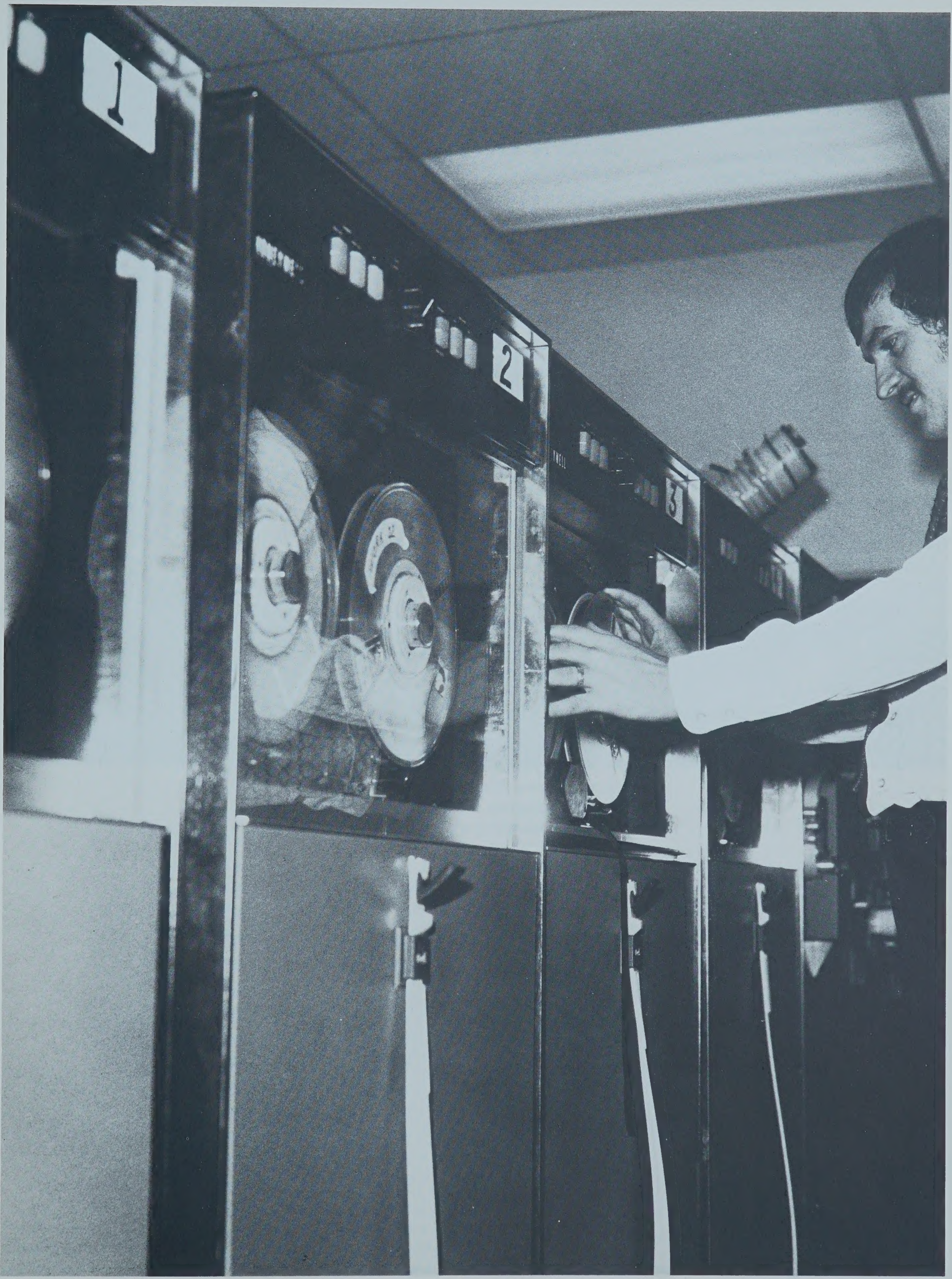
Corporate Offices

EDP Industries Limited,
1132 Homer Street,
Vancouver 3, B.C.
Telephone (604) 682-2383

Annual Meeting

The annual meeting of shareholders will be held at 2 p.m. on Friday, February 2, 1973, in the Walnut Room of the Doric Howe Motor Hotel, 1060 Howe Street, Vancouver, British Columbia.

EDP Industries past experience and knowledge in such specialized fields as: accounts receivable processing, payroll processing and general ledger bookkeeping, together with a high standard of service, enables the company to offer its professional data processing packages to a wide and growing market. These packages are flexible with enough options to satisfy most customer needs and when combined with a varied range of managerial reports customized to client specifications, provide management with the tools required to control their business.


1
2
3

Report to EDP Industries Shareholders

Significant progress was made in 1972 by consolidating the operations of the company and in establishing a firm foundation for future growth.

As a result of the company's debt reorganization and the injection of additional capital, there has been an improvement in the shareholders' account of $779,000. Shareholders' deficiency at November 30, 1972 is recorded at $242,000 compared with a deficiency of $1,021,000 for the previous year end.

The company's working capital position has improved by $301,000 and at the end of the year under review stands at $44,000. In 1971 the working capital position was at a deficit of $257,000.

Loss from operations, which in each of the previous two years exceeded $1 million was reduced in 1972 to $177,637. This improvement is continuing as indicated by the monthly trend in the past twelve months that produced a loss of $123,000 in the first six months and $54,000 in the last half of the year.

Extraordinary charges in 1972, comprised mainly of non-cash items, amounted to $375,855. This resulted in a net loss after extraordinary items of $553,492 for the year as compared to $3,435,708 in 1971.

Revenues from continuing operations during 1972 amounted to $1,504,000 as compared to $1,872,000 in the previous year. This decrease in revenue was largely the result of the discontinuance in the Western Region of keypunching services for non-computer processing customers.

The company's operating results for the previous two years, combined with the weak financial situation of EDP Industries at the end of 1971, were not conducive for potential customers to entrust their data processing to us.

The new controlling group of investors, the injection in the Spring of 1972 of additional new capital, the debt re-organization and the background of the new Board of Directors has had a positive effect on new business.

Operating results produced in 1972 and the trends established, will help increase the confidence of future clients.

Our most important revenue area is in computer processing. We look forward to a good year in 1973 for new account sales. The Board of Directors of EDP Industries anticipates the company recording a profit in 1973.

Another area of income for EDP Industries, Systems and Consulting Revenues, reported similar business to the previous year, a positive indication of the calibre of programmers and system analysts employed by the company.

Data processing, as provided by independent data processing service centres, continues to enjoy above average growth far exceeding the growth in sales of computer hardware equipment. While opportunities abound in many areas of our business, the management of EDP Industries has made a commitment to concentrate on the primary segment of this expanding market – "commercial accounting applications."

Concentration in this area will strengthen the company's market position providing it with the stability and opportunity for future growth.

Respectfully submitted on behalf of the Board of Directors,

Edward Pyrik,
President.

January 9, 1973.

Edward Pyrik, President of EDP Industries, (centre) in conference with management.

Consolidated Balance Sheet EDP Industries Limited and Subsidiary Companies

November 30, 1972

ASSETS	1972	1971
Current		
Cash	**$ 42,986**	$ 11,210
Accounts receivable	**161,529**	198,462
Unbilled charges	**24,903**	26,393
Prepaid expenses	**20,938**	20,916
Current portion of agreements receivable	**23,384**	20,254
Total current assets	**273,740**	277,235
Agreements receivable, long-term portion	**2,401**	15,627
Investment in equipment—at deemed value (note 5)	**—**	250,000
Equipment and leasehold improvements—at cost less accumulated depreciation (1972—$8,149; 1971—$54,753) (note 10)	**36,264**	965,898
	$ 312,405	$1,508,760

Approved on behalf of the Board,

Director *Director*

LIABILITIES	1972	1971
Current		
Bank loan—secured	$ 35,000	$ 50,000
Accounts payable and accrued charges	151,647	292,604
Current portion of long-term debt	—	132,200
Current portion of provision for loss on discontinued operations	42,912	59,400
Total current liabilities	229,559	534,204
Long-term debt (note 4)	—	1,832,240
Provision for losses on discontinued operations (note 5)	187,631	163,400
Deferred gain (note 3)	137,066	—
SHAREHOLDERS' DEFICIENCY		
Share capital (note 6)	5,393,083	4,060,358
Deficit	(5,634,934)	(5,081,442)
Total shareholders' deficiency	(241,851)	(1,021,084)
	$ 312,405	$1,508,760

The accompanying notes are an integral part of this financial statement.

Consolidated Statement of Operations EDP Industries Limited and Subsidiary Companies

For the Year Ended November 30, 1972	1972	1971
Data processing income	**$1,503,999**	$1,871,799
Operating expenses		
Depreciation	**122,225**	56,240
General	**200,558**	346,312
Interest	**79,284**	38,890
Machine and premises rentals	**137,488**	424,871
Salaries and benefits	**556,641**	753,437
Total operating expenses	**1,096,196**	1,619,750
Operating income before administrative overhead	**407,803**	252,049
Administrative overhead		
Administrative	**419,616**	640,835
Interest and financial	**1,787**	138,763
Marketing	**164,037**	229,470
Total administrative overhead	**585,440**	1,009,068
Net loss from continuing operations	**177,637**	757,019
Net loss from operations not continued into 1972 (note 2)	—	252,941
Loss before extraordinary items	**177,637**	1,009,960
Extraordinary items (note 5)	**375,855**	2,425,748
Loss for the year	**$ 553,492**	$3,435,708

The accompanying notes are an integral part of this financial statement.

Consolidated Statement of Deficit EDP Industries Limited and Subsidiary Companies

For the Year Ended November 30, 1972	1972	1971
Deficit, beginning of the year	**$5,081,442**	$1,645,734
Add: Loss for the year	**553,492**	3,435,708
Deficit, end of the year	**$5,634,934**	$5,081,442

The accompanying notes are an integral part of this financial statement.

Consolidated Statement of Source and Application of Funds

EDP Industries Limited and Subsidiary Companies

For the Year Ended November 30, 1972		1972		1971
Source of funds				
Sale of computer systems	$ 850,000			
Less conditional sale agreement discharged— net of discount (note 3)	585,501	$ 264,499		
Sale of treasury shares		300,000		
Increase in share capital through debt reorganization (note 6)	1,032,725			
Less reduction of long-term debt (note 4)	1,032,725	—		
Decrease in long-term agreements receivable		13,226		
Sale of equipment		15,202		
Issue of promissory note		—		$ 25,000
Disposal of interest in subsidiary company		—	$1,517,000	
Deduct: Opening working capital thereof		—	432,632	1,084,368
Other assets and liabilities		—		2,924
		592,927		1,112,292
Use of funds				
Net loss	553,492		3,435,708	
Less items not requiring an outlay of funds				
Depreciation and amortization	(125,513)		(83,717)	
Write off of deemed value of equipment (note 5)	(238,472)		—	
Loss on discontinued operations (note 5)	(69,179)		(163,400)	
Rental value of computer charged to deferred gain (note 3)	(17,000)		—	
Loss on disposal of interest in subsidiary	—		(535,203)	
Deferred income taxes of subsidiary	—		(35,000)	
Write off of intangible assets	—		(1,969,388)	
Gain on debenture reorganization	—	103,328	576,911	1,225,911
Purchase of fixed assets		10,578	998,727	
Less conditional sale agreement thereon		—	799,515	199,212
Regular principal payments on conditional sale agreement		132,923		—
Reduction of prior years losses on discontinued operations		44,948		—
Reduction of long-term debt		—		748,050
		291,777		2,173,173
Increase (decrease) in working capital		$ 301,150		$(1,060,881)

The accompanying notes are an integral part of this financial statement.

Auditors' Report

To the Shareholders of EDP Industries Limited.

We have examined the consolidated balance sheet of EDP Industries Limited and subsidiary companies as at November 30, 1972 and the consolidated statements of operations, deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at November 30, 1972 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, B.C.
December 29, 1972.

COLLINS, LOVE, EDDIS, VALIQUETTE & BARROW
Chartered Accountants

November 30, 1972

1. Principles of Consolidation and Accounting:

   The consolidated financial statements include the accounts of the company and all of its wholly-owned subsidiaries.

2. 1971 comparative figures have been restated to conform to the current year's presentation. Net losses on operations which were carried on in 1971 but were discontinued before the commencement of the 1972 fiscal year have been segregated in the 1971 comparative income statement.

3. During the year the company prepaid the balance due under the conditional sales agreement on its two computer systems and realized a discount of $81,093. The company then entered into a sale and leaseback arrangement for this equipment (Note 10) and realized a gain on the sale of $38,973. This aggregate gain of $120,066, plus $17,000 representing the value of the rental time between the commencement of use of the leased equipment and the due date of the first lease payment, is reflected on the balance sheet as a deferred gain and will be taken into income in equal monthly amounts of $2,284 over the life of the lease.

4. 1971 Long-term Debt:

   At November 30, 1971 the company was liable as follows:

(a) A $25,000 promissory note bearing interest at 9% per annum	$ 25,000
This indebtedness was satisfied during the year by the issue of 32,500 shares (Note 6).	
(b) A conditional sales agreement, covering two computers and auxiliary equipment, payable at $18,062 per month including interest at 10% per annum	931,715
During the year this agreement was paid out and the equipment was sold and leased back by the company (Note 3).	
(c) 7% convertible Sinking Fund Debentures maturing December 1, 1984	1,007,725
During the year these debentures were redeemed for shares (Note 6).	
	1,964,440
Current portion	132,200
	$1,832,240

5. Extraordinary Items:

   Extraordinary charges (credits) consist of the following:

	1972	1971
Loss on sale of subsidiary		$ 644,335
Write off of cost of shares in subsidiaries in excess of recorded net assets at date of acquisition and cost of goodwill		737,004
Write off of share issue and merger costs		139,858
Write off of establishment costs		1,145,195
(a) Provision for losses on discontinued operations	**$ 83,726**	336,267
Gain on retirement of debentures	**—**	(576,911)
Reorganization expenses (Note 6)	**27,657**	
(b) Write off of deemed value of used and obsolete equipment	**238,472**	
Contract settlements	**26,000**	
	$ 375,855	$2,425,748

(a) Provision has been made for the estimated losses arising from the discontinuance of certain projects and operations of certain branches and subsidiaries. Included in the estimated losses in 1971 are aggregate rentals due on leased premises in Montreal which terminate in 1978. During the year it was determined that these losses would be substantially greater due to escalation clauses contained in the lease and the estimated additional amount has been provided for in 1972. Possible recovery by means of sublease, etc. is not yet determinable.

(b) In 1971 the company sold its interest in a subsidiary and, as partial consideration, received in March, 1972 title to certain assets deemed to have a value of $250,000. Subsequent analysis indicated that many of the assets could not be utilized in the present operation and had a low resale value. $12,000 was realized on the sale of a substantial part of these surplus assets and the balance of $238,000 was written off.

6. Share Capital:

Authorized—

1972	1971	
	100,000 shares	—5% cumulative redeemable convertible preferred, Series A—par value $25 each
8,000,000 shares	1,500,000 shares	—common, no par value
$6.00	$30.00	—maximum selling price of common shares

By a shareholders' resolution dated March 14, 1972 the authorized capital was changed to 8,000,000 common shares with no par value.

Issued and fully paid—	Shares	$
Balance, November 30, 1971		
5% Preferred	100,000	$2,298,000
Common	568,860	1,762,358
Transactions during the year		
—Conversion of all shares to common by shareholders' resolution of March 14, 1972	1,028,460	4,060,358
—Issue for cash, March 17, 1972	3,500,000	300,000
—Redemption of Sinking Fund Debentures, April 6, 1972	1,172,900	1,007,725
—Issue for satisfaction of promissory note, July 18, 1972	32,500	25,000
Balance November 30 ,1972	5,733,860	$5,393,083

Shares are reserved for:	Number of shares
(a) Employee stock options, exercisable until 1974 at $2.00 per share	1,400
(b) Share purchase warrants exercisable at $1.75 per share up to December 1, 1974 and at $2.50 per share thereafter up to December 1, 1979	124,575
	125,975

7. Loss per Share:

	1972	1971
Loss before extraordinary items	**$0.04**	$1.98
Loss for the year	**0.13**	6.24

Loss per share is calculated giving effect to shares issued during the year on a weighted average basis.

8. Income Taxes:

The companies have substantial losses for income tax purposes which may be applied to otherwise taxable income of future years.

9. Lease Commitments:

The company has leased premises for terms ranging to February 1979 at annual rents of approximately $216,000, and has subleased certain of these premises which will reduce this total annual rent cost by approximately $62,300. The company has leased its computer systems (Note 10) for an annual rent of $204,000. Leases on other equipment extend for periods to 1976 and will require payments aggregating $70,000 in 1973.

10. Statutory Information:

(a) Directors remuneration

The total remuneration paid to directors, five of whom were paid as employees, was $66,500. In 1971 the amount was $81,000 and three of the directors were paid as employees.

(b) Sale and Leaseback

Under the terms of a sale and leaseback arrangement entered into during the year the company sold its two computer systems for $850,000 (to a company controlled by directors of EDP Industries) and leased them back for a term of five years from December 1, 1972 at a monthly rate of $17,000. The company has the option to purchase the equipment for $200,000 at the end of the lease period; otherwise the lease agreement continues for a period of one year at a monthly rate of $12,000. At the expiration of this additional year the company has the option to purchase the equipment for its fair market value at that time.

LITHOGRAPHED IN CANADA

EDP Industries Limited is helping companies to get out of the bookkeeping business and concentrate on the business they're in!

Bookkeeping is a must for all business, but all businesses are not in the bookkeeping business. It usually takes a crisis to discover how much time, effort and equipment is necessary to handle their bookkeeping requirements. Usually, this is the last department to be modernized and most often operate along the same lines as many years past. Modernization implies computerization and companies are discovering that you don't have to be a giant in the business world to take advantage of computerization. No half-way measures either, such as semi-automatic methods, but taking full advantage of current, modern, high-speed computers – by processing through a professional, outside data service centre.

Volume requirements for individual bookkeeping applications are suddenly reduced when considering computer processing costs on the basis of paying for computer time *only when needed.* Combined with programming cost savings through use of standard programming "packages", each with a wide variety of options, companies have found it to make sense to utilize a data service centre whether it be for receivables, payables, payrolls, inventories, general ledger or any area characterized by large volumes of repetitive work.

EDP Industries Limited, with data centres in Toronto and Vancouver, will continue to strive to strengthen its position in this expanding market.

EDP Industries Limited

EASTERN REGIONAL OFFICE
40 Wynford Drive, Don Mills, Ontario

WESTERN REGIONAL OFFICE
1132 Homer Street, Vancouver 3, B.C.